Paragraph 105 of the Designation Order calls for each exchange carrier to provide as part of its direct case evidence of and description of the information underscored in the following:

(1) Ranges of data on the age of the work force.

GTE Response: The ranges of data on the age of the work force used in the SFAS-106 actuarial study is provided in Attachment 1.

(2) Ages at which employees will retire.

GTE Response: The approximate average retirement ages utilized for the actuarial study for SFAS-106 is 60 for Nonunion and 61 for Union.

(3) Length of service of retirees.

GTE Response: Attachment 1 also provides a summary of the years of service at retirement used in the valuation for SFAS-106.

7. GTE furnishes the pertinent sections of employee handbooks, union contracts, and other items in response to paragraph 105 of the Designation Order.

GTE Response: Attachment 2 provides a copy of pertinent items addressing the company's ability to modify its post-employment benefits. Brochures/election forms used by GTE for all its employees contain a provision reserving the company's right to make changes. These provisions are in two forms:

First:

> Although GTE intends to continue the coverage and provisions as outlined in the brochure, GTE reserves the right to terminate, alter or revise the plan coverage and provisions.

Second:

> GTE plans to continue offering the Retiree Health Benefits Plan, however, it reserves the right to change, modify or terminate benefits.

Issue 2: How should price cap LECs reflect amounts from prior year sharing or low-end adjustments in computing their rates of return for the current year's sharing and low-end adjustments to price cap indices?

1. Introduction

In response to the Annual Filings, AT&T had raised the issue that certain price cap LECs had improperly implemented their sharing and low-end adjustments. Specifically, the issue is whether the price cap rules require LECs to compute their rates of return for the price cap sharing and low-end adjustment mechanisms in basically the same manner as rate of return carriers do in determining overearnings.[30] The Designation Order suspended the affected rates of the LECs which had sharing or a lower formula adjustment ("LFAM"), imposed an accounting order and initiated an investigation.

Commission can initiate a rulemaking to determine future policies, administrative fairness requires that past actions be determined by the rules and policies in effect at that time. The Annual Filings, therefore, should be evaluated for reasonableness based upon the rules already in effect.

Moreover, GTE considers it unfortunate that the Commission is inclined to intervene so quickly in the LEC price cap plan; seemingly second guessing its own rules. To pull out this single issue to be reviewed in isolation at this time appears to be a piece-meal approach.

The Commission has two options if it believes these rules require clarification, or more accurately, modification. First, it may, and has, proposed changes to its current

> acclimation could result in regulatory ambiguity, and resulting uncertainty, that would effectively stifle the intended incentives.[33]

A fair evaluation of the overall price cap plan including this add-back proposal, the treatment and definition of exogenous changes, and many other proposals will be best performed as part of that comprehensive review.

3. Prior year's sharing and low-end adjustments should not be used in

This cap lowering is clearly different than the refunds which were part of rate of return regulation and is not intended to achieve the same result. Under rate of return, the refund actually reduced cash for the overearning LEC. No such exchange of cash exits under price caps; rather, the cap on prices ("PCI") the LEC will charge in the succeeding tariff year is reduced. In effect, sharing creates a potential future price reduction. It should not be added back to the LEC's overall earnings as the Commission suggests in the Designation Order and the NPRM. The idea of "adding back" a sharing amount to the subsequent year's earnings would overstate the LEC's actual earnings, double count shared earnings, carry the effect of sharing into multiple periods and treat sharing as if it were a refund.

In its original proposal of sharing, the Commission anticipated that sharing would be calculated based on a LEC's base year earnings.

> Based on a LEC's earnings level during the base year for that filing, we would determine if earnings were above the level that triggers sharing.[37]

The Commission confirmed that sharing is to be calculated based upon past year's earnings.[38] The rules clearly dictate that sharing is to be determined based on a LEC's earnings for that the period, not earnings plus prior period sharing. Inclusion of prior period sharing in this determination would inflate a LEC's earnings levels with revenues which were not realized in the monitored period. Moreover, this add-back could result in the LEC actually sharing much more than the prescribed sharing percentage due to the inclusion of the same shared earnings in two separate monitoring report

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37 Supplemental Notice of Proposed Rulemaking, CC Docket No. 87-313, 5 FCC Rcd 2228 (1990) at ¶171. ("Supplemental Notice")

38 LEC Reconsideration Order at ¶106.

calculations. Earnings should only flow through the sharing mechanism one time, *i.e.*, a one time PCI adjustment.

The original proposal of sharing also describes the Commission's intended calculation and application of sharing as

> an exogenous cost adjustment that would enable ratepayers to share earnings above a certain level during the course of the upcoming price cap tariff year. At the end of the year, an upward exogenous cost adjustment would be made to reflect the fact that sharing of the excess earnings had been completed.[39]

The completed sharing benefit prescribed in the price cap rules is a one-time reduction in the PCI just as originally proposed.

> The customer share plus interest will be returned in the form of a <u>one-time</u> [emphasis added] reduction in the PCI for the next rate period, calculated in the same manner as other exogenous changes in the formula.[40]

> Furthermore, the sharing mechanism operates only as a <u>one-time</u> [emphasis added] adjustment to a single year's rates, so a LEC would not risk affecting future earnings . . . [41]

A reduction in the PCI as a result of sharing does not necessarily result in an equivalent reduction in rates. LECs are not required to hold prices to the cap, in fact, many have elected to hold prices below the cap. The benefit to be shared with the customer is only a reduction in the cap under which the next rate period's prices must be set.

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39 <u>Supplemental Notice</u> at ¶171, n.290.

40 <u>LEC Price Cap Order</u> at ¶124.

41 <u>Id.</u> at ¶136.

Sharing was not intended to be a refund under the price cap plan and should not be treated as a refund in calculating future sharing amounts. The Commission stated in the Supplemental Notice:

> We wish to clarify that the sharing devices we are proposing here are substantially different than the automatic refund mechanism struck down in AT&T v. FCC. supra. In that case, an automatic refund was applied to all earnings in excess of the unitary rate of return, with no corresponding automatic correction for earnings below it. In our instant proposals, however, earnings are shared with ratepayers in a manner that ensures that carriers can retain earnings within a price cap zone of reasonableness if they can generate such earnings. The sharing we propose could not force the carrier's average return below the zone of reasonableness earnings we propose to create. Our proposal to increase prospectively a carrier's price cap indexes to the lower "formula adjustment" level ensures that carriers will have a reasonable opportunity to earn within the price cap zone of reasonableness.[42]

The suggestion that sharing should be treated as if it were a refund is an attempt to pull price caps further back toward rate of return regulation which the Commission has tried to move away from for AT&T and the larger LECs. Add-back is plainly not supported in the price cap plan.

To support the fact that sharing was not intended to be treated as a refund, a review of the history of the development of the sharing, or backstop, mechanism is appropriate. In the Second Further Notice of Proposed Rulemaking ("Second Further Notice"), the Commission had considered certain backstop mechanisms:[43] the automatic stabilizer (permanent PCI adjustment) and sharing (one-time PCI adjustment); the shortened review of price cap plan; and the refund mechanism

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42 Supplemental Notice at ¶172.

43 Second Further Notice of Proposed Rulemaking, CC Docket No. 87-313, 4 FCC Rcd 2873 (1989).

At this stage, the Commission tentatively adopted the automatic stabilizer with sharing. When the LEC Price Cap Order was released, the Commission had formally adopted a backstop mechanism which only included sharing, while excluding the automatic stabilizer, on the grounds that this mechanism was simpler and more flexible. Furthermore, it ruled that this sharing mechanism "operates only as a one-time adjustment to a single year's rates, so a LEC would not risk affecting future earnings, as it would in the case of the stabilizer" previously considered.[44]

The Commission was convinced to reject the permanent effect of the automatic stabilizer on the grounds specifically presented by GTE, in its Comments, that the stabilizer would create "perverse incentives" which might seriously harm the LECs when they had a productive year.[45] While the Commission adopted the sharing proposal, and rejected the automatic stabilizer, it failed to adopt the other two backstop mechanisms, in particular, a refund. Based on the history of the price cap proceeding, the Commission must find that the current rules exclude a refund mechanism, alias the add-back adjustment.

The low-end adjustment is also based on a LEC's actual earnings under the existing price cap rules. The amount by which current year earnings fall beneath the lower formula adjustment mark is also used as a one-time adjustment to temporarily increase the PCI in the subsequent rate period.

> If the earnings of a LEC whose rates are set below the PCI fall below the lower adjustment mark in a base period, it is entitled to adjust its rates upward to target earnings to an amount not to exceed the lower mark, using the prior period as the baseline.[46]

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[44] LEC Price Cap Order at ¶136.

[45] Id. at ¶134.

[46] Id. at ¶127.

The arguments against "adding back" sharing would also hold true for the low-end adjustment. Consistency dictates that they be treated in a similar fashion. The low-end adjustment is a short term solution for company specific productivity issues or local economic downturns. A rate case may be required if plan results become confiscatory in the long term. The Commission recognized the possibility of this occurrence and has directly addressed this situation in the price cap plan.[47]

In summary: The current rules clearly require a one-time adjustment for sharing or LFAM that the add-back would violate. The Commission must abandoned its suspension of tariffs in conjunction with the add-back issue and defer clarification of its rules to either the NPRM or the four year comprehensive review.

Issue 6: Have the LECs properly reallocated GSF costs in accordance with the GSF Order?

1. Introduction

On May 19, 1993, the Commission released the GSF Order[48] directing LECs to file revised rates, to be effective July 1, 1993, to reflect the reallocation of GSF costs from traffic sensitive and special access to common line. Using the rates proposed in the 1993 Annual Access tariff filings as a base, the GSF Filings proposed revised rates based upon the reallocation as an exogenous change. Oppositions to the GSF Filings were due to be filed June 23, 1993, the same day the Designation Order was released. The Designation Order (at 104) Acknowledging that, due to the limited time within which to conduct a review of issues concerning the GSF Filings, the Commission determined,

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47 Id. at ¶165.

48 Amendment of Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, FCC 93-238, released May 19, 1993.

in "an abundance" of caution, to suspend the proposed rates and to make them subject to the instant investigation.

2. The General Support Facility cost reallocations are correct as filed.

The reallocations proposed in GTE's GSF Filings are correct and in full compliance with the Commission's Rules. Significantly, no parties filed in opposition to the GTE filings.[49] Since no issues have been raised by opposing parties or the Commission (other than a concern for the timing), GTE does not believe that this issue requires further elaboration or investigation.

Issue 7: To what category or categories should the LIDB per query charges be assigned?

1. Introduction

The GTOCs and several other LECs introduced Line Information Data Base ("LIDB") as a new service in 1992.[50] As required by the price cap rules for new services, LIDB was included in the 1993 Annual Access tariff filing. The GTOCs placed LIDB in the traffic sensitive basket. The demand for this service was then included in determining the weights used to calculate the Actual Price Index ("API") for the traffic sensitive basket. The Designation Order directs LECs to address the appropriate category or categories for the LIDB per query charge.

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49 The GSF Filings were filed on 14 days' notice. Oppositions were due by June 23, 1993.

50 The GSTC companies do not offer LIDB.

2. <u>LIDB query charges should be included in the traffic sensitive basket since the costs associated with LIDB are part of the tandem access costs which are in the transport category.</u>

GTE believes this element is correctly placed in the traffic sensitive basket as the costs associated with LIDB are part of the tandem access costs which are in the transport category. As the <u>Designation Order</u> (at para 62) points out, all of the price cap LECs, except United, included LIDB in the transport category. GTE does not believe that it is appropriate to place this service in the switching category because it is part of the tandem access costs which are in the transport category.

Accordingly, GTE has properly justified its Annual Access tariff filings as supported by this Direct Case.

Respectfully submitted,

GTE Service Corporation and its GTE affiliated Telephone Operating Companies and GTE System Telephone Companies

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July 27, 1993

THEIR ATTORNEYS

GTE TELEPHONE OPERATIONS
1993 Annual Access Tariff Filings
Issues Designated For Investigation

Ranges of Data on the Age of the Workforce

AGE RANGE LAST BIRTHDAY	# OF EMPLOYEES	% OF TOTAL
15–19	186	0.22%
20–24	2,157	2.54%
25–29	5,324	6.26%
30–34	11,713	13.77%
35–39	16,546	19.46%
40–44	19,477	22.90%
45–49	15,797	18.58%
50–54	8,601	10.11%
55–59	3,988	4.69%
60–64	1,138	1.34%
Over 64	111	0.13%
Total	85,038	100.00%

Average Age = 41.6

NOTE: As of January 1, 1992; consistent with data used in the SFAS 106 actuarial study.

Length of Service of Retirees

YEARS OF SERVICE AT RETIREMENT	# OF RETIREES	% OF TOTAL
0–4	833	3.07%
5–9	367	1.35%
10–14	1177	4.34%
15–19	3300	12.18%
20–24	4,916	18.14%
25–29	5,366	19.81%
30–34	6,058	22.36%

Provide pertinent sections of employee handbooks, contracts with unions and other items that include statements to the employees concerning the company's ability to modify its post-employment benefits package.

Find Attached:

1) Standard format of VEBA agreement. Standard language used in virtually all labor agreements.

2) GTE Choices Benefit Program - All Salaried and Hourly Non-Union.

3) GTE North Incorporated Medical Plan - Michigan Union.

4) Standard GTE Retirement Health Benefit Form.

5) Hourly Retirees' Benefit Information - Hawaiian Tel.

6) Salaried Retirees' Benefit Information - Hawaiian Tel.

7) Contel Retiree Medical and Life Insurance Program - Utah Union.

JANUARY, 1992

MEMORANDUM OF AGREEMENT

VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

RETIREE MEDICAL BENEFITS

DEFINED DOLLAR BENEFITS

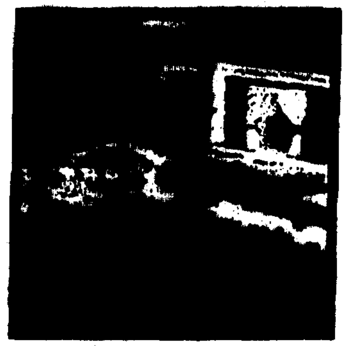
1. ____(Company)____ and ____(Union)____ hereby mutually agree to the

7. The Company agrees to notify the Union and to discuss its actions should the Company determine that the funding or operation of the trust and/or applicable sections of this Memorandum of Agreement, other than those sections relating to the level and type of Retiree Medical Benefits, need to be modified or rescinded prior to __(Expiration Date)__. This notification will take place, in writing, within fifteen calendar days prior to the date of modification or rescission. This notification will specify the cause for and effect of this action. If the parties are unable to reach agreement on such changes, the funding or operation of the trust and/or applicable sections of this Memorandum of Agreement, other than those sections relating to the level and type of Retiree

GTE CHOICES

Your Flexible Benefits Program

Dental



Life Insurance

Medical

Long-Term Disability

Flexible Reimbursement

Long-Term Disability (LTD) Plan

If you decide you do not want to participate in the LTD plan, or if you elect Option 2, you will be required to provide proof of insurability, as described in the previous paragraph on life insurance, if you want to elect or increase coverage in the future.

Flexible Reimbursement Plan

Each year you get to choose any amount up to $2,500 you want to deposit into your health care reimbursement account and up to $5,000 for child/elder day care reimbursement account. Remember to plan wisely. If you don't use up your contributions in eligible expenses by December 31, you'll forfeit the unused money.

If You Don't Enroll

GTE wants you and your family protected against the events in your life that could cause financial hardship. That's why it's very important for you to think carefully about your GTE CHOICES elections and make informed decisions. However, if you don't decide about your benefits and complete your election form by the enrollment deadline, GTE will choose for you.

If you do not enroll by the deadline, you will receive, by default, coverage of:

- Medical, Option 3, you only, $1,000 deductible
- Dental, Option 3, no coverage
- Life and AD&D, Option 3, $10,000
- Long-term disability, Option 3, no coverage
- Flexible Reimbursement Plan:
  - Health care account — no contributions
  - Child/elder day care account — no contributions

Any of your GTE benefit dollars that are left over after your default coverages go into effect will be forfeited by you. You may not change your default coverages until the next annual enrollment.

If The Program Is Ended Or Modified

GTE intends to continue the GTE CHOICES program indefinitely. But because conditions might change unexpectedly, GTE reserves the right to change, suspend, or end the program at any time, in whole or in part. In addition, benefits may be discontinued at any time for any group of employees or inactive participants, including retirees. In the unlikely event that the program is discontinued or terminated, in whole or in part, benefits would be paid only for services received up to the date of program termination. You will be notified if the GTE CHOICES program is amended.

One Final Thought

This is a summary of the GTE CHOICES plans. Detailed descriptions of the coverages offered can be found in the individual summary plan descriptions (SPDs) that follow this summary. Please review each SPD before you make your decisions and if you should have further questions, contact your local human resources representative.

GTE North Incorporated
Medical Plan

MC010MH – 2/92

ABOUT YOUR MEDICAL PLAN

Most of us take reasonable precautions to guard our health and safety. Despite this, statistics show that virtually everyone will sometime, somehow, have an injury or illness serious enough to require a stay in the hospital. When that happens, we want the best health care possible for ourselves and our families.

Unfortunately, quality health care comes at a high price. While modern, lifesaving technology has become available to everyone, it is increasingly expensive. This makes the protection your medical plan offers particularly valuable.

The plan pays benefits for hospital charges, doctors' bills, surgery, outpatient services, diagnostic tests, home health care, and a wide variety of other medical services and supplies. The plan has been designed to help you and your family receive top quality health care when you need it most, while providing incentives for you to be an intelligent consumer of medical care. Two of these incentives are Patient Advocate and, if your location participates, a preferred provider organization (PPO). It's important to keep these features in mind because their use ensures that you receive maximum benefits.

GTE sponsors one master plan for group medical benefits for all eligible employees. Within this overall plan, there are separate descriptions of these benefits, based on the actual benefits offered by different GTE business groups. This booklet describes the medical benefits for the participating regular full-time and part-time hourly employees of GTE North Incorporated in Michigan IBEW Local 1106. They are covered by collective bargaining agreements made with GTE.

January 1, 1992 is the date changes were most recently made in the plan.

This booklet also describes retiree medical coverage for eligible participating employees who retire on or after January 1, 1992. See the section, "When You Retire," for more information.

In this booklet, we've tried to describe your medical benefits as much as possible in everyday language. But some terms have specific meanings. To help you understand these terms, we have summarized them in a glossary of terms on the last three pages of this booklet. It may help for you to refer to the glossary while you're reading. If you have questions after reading this material, contact your benefits representative.

Instead of this plan, you can choose to have coverage under a health maintenance organization (HMO) if you live in the service area of an HMO offered at your location. See the section, "Health Maintenance Organizations (HMOs)," for more information. When you retire, you are no longer eligible to participate in an HMO.

If You're In An HMO

If you're in an HMO when coverage ends, you'll have the same continuation rights under the HMO as you

If The Plan Is Ended Or Modified

GTE intends to continue this plan indefinitely. But because conditions

GTE RETIREMENT HEALTH BENEFITS

PLEASE READ INSTRUCTIONS ON THE REVERSE SIDE OF THE FIRST PAGE BEFORE COMPLETING.

ELECTION NOT TO PARTICIPATE: I do not wish to participate in GTE's Retirement Health Benefits Plan. If I am eligible for Medicare, I understand that by this selection I and/or my dependent(s) will not be eligible to participate in the plan at any point in the future. If I am not currently eligible for Medicare, I understand that I will be able to participate in the plan in effect at the time I do become eligible for Medicare, provided I make election, in writing, so that it is received by GTE at least 60 days prior to turning age 65. In all cases, coverage is limited to dependents who were eligible for coverage at my retirement.

RETIREE/SURVIVING SPOUSE'S SIGNATURE ______ SOCIAL SECURITY NUMBER ______ DATE ______

ELECTION TO PARTICIPATE: (PLEASE PRINT AND COMPLETE ALL COLUMNS FOR EACH PERSON TO BE COVERED.)

	NOT MEDICARE ELIGIBLE	MEDICARE ELIGIBLE	NAME	SOC. SEC. NO.	DATE OF BIRTH MO/DAY/YR	SEX (F or M)
RETIREE/ SURVIVING SPOUSE	☐	☐				
SPOUSE	☐	☐				
OTHER (DEPENDENTS)	☐	☐				
	☐	☐				
	☐	☐				

RETIREE ADDRESS STREET ______

______

CITY ______ STATE ______ ZIP ______

I understand that

- coverage will be provided under the plan in effect as of the date of submission of this application, and
- rates are subject to change, and
- GTE plans to continue offering the Retiree Health Benefits Plan, however, it reserves the right to change, modify or terminate benefits.
- for retirees receiving monthly annuity payments: ☐ withhold contribution from my check. ☐ do not withhold contribution from my check, bill me directly.

RETIREE/SURVIVING SPOUSE'S SIGNATURE ______ DATE ______

PREMIUM INFORMATION:

1. PENSION COMM. DATE ______ WAGE TYPE: ______
   UNION GROUP (IF APPLICABLE) ______
2. TYPE ☐ GTE INDEMNITY PLAN (TRAVELERS ADMINISTERED)
   ACCOUNT NO. ______
   ☐ OTHER ______
   ACCOUNT NO. ______
3. COVERAGE START DATE ____/____ MO YR
4. RETIREE CONTRIBUTION START DATE ____/____ MO YR
5. BILLING CYCLE (CIRCLE ONE IF RETIREE IS TO BE BILLED)
   M (MONTHLY) Q (QUARTERLY)
6. ☐ CHECK HERE IF THE MEDICAL INSURANCE IS FOR A SERVICE RETIREMENT SURVIVING SPOUSE WHO WILL HAVE 3 YEARS OF FREE COVERAGE.

7. FULL MONTHLY PREMIUM AMOUNT
   SINGLE $ ______
   DEPENDENT $ ______
   TOTAL $ ______
8. RETIREE CONTRIBUTION
   A. ☐ ALWAYS SERVICE-LINKED ______ %
   B. ☐ ALWAYS A FIXED DOLLAR AMOUNT (NOT A SERVICE-LINKED PERCENTAGE)
   C. ☐ FIXED DOLLAR AMOUNT BEFORE MEDICARE, SERVICE-LINKED WITH MEDICARE ______ %
   D. ☐ SERVICE-LINKED BEFORE MEDICARE ______ FIXED DOLLAR AMOUNT WITH MEDICARE
   E. ☐ COMPANY-PAID BEFORE MEDICARE, AND THEN ☐ SERVICE-LINKED ______ % ☐ FIXED DOLLAR AMOUNT
   F. ☐ OTHER ______

STATEMENT BY EMPLOYER: I certify that the above Retiree and/or Spouse has fulfilled the necessary qualifications and therefore is eligible for participation.

SIGNATURE OF AUTHORIZED HUMAN RESOURCES REPRESENTATIVE ______ DATE SIGNED ______

COMPANY NAME ______ LOC. # ______ PENSION COMPANY # ______

Form 3023 (Rev 1/91)

HOURLY RETIREES' BENEFIT INFORMATION

Hawaiian Tel

NAME: ____________________

1. RETIREMENT SYSTEM - (See Attachment)

2. GROUP LIFE INSURANCE

Coverage as an employee:

$ ____________ (Basic) $ ____________ (Supplemental)

Coverage as a retiree: (Estimated)

$ ____________ (Average Final Salary (AFS))

First 5 Years - 50% of AFS ____________	8th Year - 35% of AFS ____________
6th Year - 40% of AFS ____________	9th Year - 30% of AFS ____________
7th Year - 40% of AFS ____________	10th Year & Thereafter - 25% of AFS ____________

Conversion Privilege - (No Evidence of Insurability Required)

You may convert any amount up to $ ____________ (Basic & Supplemental less coverage for first five years) with Travelers Insurance Company. Toll-free number 1-800-243-2419

After retirement, coverage with the Group Universal Life Plan may be continued by you directly with the carrier. Toll-free number 1-800-336-9427.

3. HEALTH BENEFITS

Under age 65 Medical coverage continues without Vision/Optical benefits until age 65. The Company will continue to pay a percentage of the medical premiums for the HTC members in accordance with special program designations (i.e. EAIP, etc.). As of September 1, 1988, retirees with additional dependents (e.g. children) will be required to pay 50% of the premium equivalent of the HTC Aetna plan for these dependents. Retirees are eligible for medical plans that are available to active employees. As benefits and coverage under medical plans available to active employees change, so will the benefits and coverage for retirees change.

Age 65 and Over At age 65, both you and/or your spouse must transfer to a Medicare Supplemental Plan. To be able to transfer to these plans, you and/or your spouse must be enrolled in Medicare, Parts A and B, with Social Security. Approximately two months before your 65th birthday, Social Security will send you a notice to inform you that as of the first of the month in which you will be 65, you will be eligible for Medicare Part A, which is free. Then you will be asked whether or not you want Part B, which is paid by deductions from your monthly Social Security check. If you do not take Part B, you will not qualify for one of the supplemental Medicare plans. The cost of Part B premium that is deducted from your Social Security monthly check will be reimbursed to you and/or your spouse by Hawaiian Tel. The cost of HTC Plan and an equivalent amount for an HMO Supplemental Plan will be paid by HTCo.

Other Your Dental coverage ends. However, you are eligible for coverage under COBRA for 18 months. Upon your death, medical benefits for your spouse and all other eligible dependents will continue for one year, then your spouse and dependents will be eligible for coverage under COBRA for two years by paying the medical premiums. After this period, your spouse and dependents must make arrangements for further medical coverage.

4. DISCOUNTED TELEPHONE SERVICE

You will be entitled to a ________ % discount on your monthly basic telephone rates. Retirees, who reside in another State, are also eligible for the discount. Out-of-State retirees should submit phone bills to Benefits for semi-annual reimbursement. Discount service continues for three months after your death.

5. FEDERAL AND STATE INCOME TAX WITHHOLDING

Pensions are taxable under Federal Income Tax Laws. If you so authorize, Hawaiian Trust Company will withhold federal taxes from your monthly retirement checks. A W2-P statement will be sent to you, showing annual pensions payments and tax withholdings at the beginning of each calendar year. (NOTE: For State tax purposes the interest portion of your accumulated contributions is taxable. Should you elect not to withdraw the interest, you will have an annual state tax liability on this amount for as long as you or your spouse receives a pension.)

6. EMPLOYEE STORE PURCHASES

Although employee discounts on products at the Employee Store will continue for retirees, all purchases must be for cash only. The monthly installment plan was discontinued.

7. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

You may elect a distribution of shares of stock from GTE Shareholder Services, Inc. in the year that you retire or in the next calendar year. Or, if the value of the shares in your account is $3,500 or more, you may choose to defer distribution to as late as age 70½. Since the ESOP plan requires that the stock certificate be issued only in your name, you may want to use this toll-free number, 1-800-225-5160, Shareholder Services, to request forms to change this certificate to include another name. Call only after you have received the initial distribution. You may expect to receive your distribution within 60 days from the time the request is signed by you.

8. EMPLOYEE STOCK PURCHASE PLAN

If as an active employee you are purchasing GTE stocks, you may arrange for monthly payments to complete the offering. Forms to continue payments will be provided at the counseling session. Retirees are not eligible to participate in future offerings.

9. SAVINGS, INVESTMENT & TAX-DEFERRAL PLAN

Upon retirement you may elect to withdraw the full value of your account as a lump sum, in annual installments for 2 to 10 years, as a single-life annuity or as a 50% joint-survivor annuity. If your account is worth more than $3,500, you may also choose to defer distribution to as late as age 70½. As a retiree, you are entitled to the Company match for the year in which you retire. As with all Company matches, this will be done in March of the following year. If you request a distribution at retirement, this final match will be sent as a separate payment. You will receive your distribution within 60 days from the time you sign the request form.

10. CREDIT UNION

Once a member, always a member. Contact Credit Union to settle your personal account.

11. TIME SHEETS AND BILLS

[illegible]

SALARIED RETIREES' BENEFIT INFORMATION

NAME: ______________________

1. **RETIREMENT SYSTEM - (See Attachment)**

2. **GROUP LIFE INSURANCE**

Coverage as an employee:

$ ______________ (Basic) $ ______________ (Supplemental)

Coverage as a retiree: (Continued) $ ______________ (Average Final Salary (AFS))

First 5 Years - 75% of AFS ______________

6th Year - 65% of AFS ______________

7th Year - 55% of AFS ______________

8th Year - 45% of AFS ______________

9th Year - 35% of AFS ______________

10th Year & Thereafter - 30% of AFS ______________

Conversion Privilege - (No Evidence of Insurability Required)

You may convert any amount up to $ ______________ (Basic & Supplemental less coverage for first five years) with Travelers Insurance Company. To inquire about rates, call 1-800-243-2419.

If you are enrolled in the Group Universal Life Insurance program, you may continue coverage by contacting Johnson & Higgins/Kirke-Van Orsdel at 1-800-336-6427. Remember the time difference—this is in Iowa.

3. **HEALTH BENEFITS - *(see Attachment)***

4. **DISCOUNTED TELEPHONE SERVICE**

You will be entitled to a ________ % discount on your monthly basic telephone rates. Retirees, who reside in another State, are also eligible for the discount. *Out-of-State retirees should submit phone bills to Benefits for semi-annual reimbursement.* Discount service continues for three months after your death.

5. **FEDERAL AND STATE INCOME TAX WITHHOLDING**

Pensions are taxable under Federal Income Tax Laws. If you so authorize, Hawaiian Trust Company will withhold federal taxes from your monthly retirement checks. A statement (W2-P) of the amount paid as pension and the amount deducted for taxes will be sent to you after the close of each calendar year. (NOTE: For state tax purposes, the interest portion of your accumulated contributions is taxable. Should you elect not to withdraw the interest, you will have an annual state tax liability on this amount for as long as a pension is received by you or your spouse.)

6. **EMPLOYEE STORE PURCHASES**

Although employee discounts on products at the Employee Store will continue for retirees, all purchases must be for cash only. The monthly

SALARIED RETIREES' BENEFIT INFORMATION
(Continued)

HEALTH BENEFITS

Employees retiring after April 1, 1990, must make contributions to medical premiums based on creditable service at retirement. Contributions apply to both retiree and dependent coverage. If you elect not to be covered by the retiree medical plan at the time of retirement, you will not be allowed to rejoin, except during open enrollment periods.

If you elect to defer collecting your pension, you will not be eligible to retain coverage in the retiree medical plans offered by the Company.

Under age 65 Medical coverage continues without the Vision/Optical rider until age 65.

The Company will continue to pay a percentage of the medical premium for retirees and spouses. As of September 1, 1990, retirees with additional dependents (e.g. children) will be required to pay 80% of the premium equivalent of the HTC Aetna plan for these dependents.

Premium contributions for medical coverage by management retirees will fluctuate from year to year. It is imperative that you read the annual data on the rates for the next year which will be sent to you in the fourth quarter of each year. Contributions will apply to single, double and family coverage.

The premium schedule is:

Years of Creditable service at retirement	Percent of health care premium paid by retiree
Less than 10	100%
10 to 14	80
15 to 19	60
20 to 24	40
25 to 29	20
30 and over	10

This same schedule for premium contributions will apply to the Medicare supplement premiums when retirees and spouses become eligible for Medicare.

Retirees are eligible for medical plans that are available, from time to time, to active employees or such plans as may be established, from time to time, for retirees. As benefits and coverage under medical plans available to active employees change, so will the benefits and coverage for retirees change.

Age 65 and over Since you and your spouse will qualify individually for Medicare at age 65, you or your spouse must also transfer to one of the supplemental Medicare plans. To be able to qualify for one of these plans, you or your spouse must be enrolled in Medicare Part A and Part B with Social Security. When you or your spouse are covered under Medicare, other dependents on the medical plan will continue to be covered under the regular retiree medical plan.

Approximately two months before your 65th birthday, Social Security will send you a notice to inform you that as of the first of the month in which you will be 65, you will be eligible for Medicare Part A, which is free. Then you will be asked whether or not you want Plan B, which is paid by deductions from your monthly Social Security check. If you do not take Part B, you will not qualify for one of the supplemental Medicare plans.

As soon as you or your spouse receives a new Social Security card which shows that you are covered under Medicare, please contact the Benefits Office. This will enable us to enroll you or your spouse in the Supplemental Medicare Plan and place you or your spouse on the list for reimbursement of your Part B Medicare premiums by GTE Hawaiian Tel.

Other Your dental coverage ends as of the end of the month in which you retire. However, you are eligible for coverage under COBRA for 18 months.

Upon your death, medical benefits for your spouse and all other eligible dependents will continue for one year, then your spouse and dependents will be eligible for coverage under COBRA for two years by paying the medical premiums. After this period, your spouse and dependents must

PLAN ADMINISTRATION

Plan Name and Sponsors

This plan is known as the Contel Retiree Medical and Life Insurance Program and is a welfare plan. The plan is sponsored by participating business units of Contel Corporation, 245 Perimeter Center Parkway, Atlanta, Georgia 30346.

You may obtain from the Plan Administrator information as to whether a particular business unit is a participating company sponsoring this plan with respect to a particular group of employees, as well as that business unit's address, if it is a plan sponsor.

Plan Funding

Medical benefits under this Plan are paid by the Contel Employees's Benefit Trust, an exempt entity under the terms of Section 501(c) (9) of Title 26 of the Internal Revenue Code. Employers contribute the full cost of such benefits. Some or all of the employer contributions may be held in trust by this entity. The address of the Contel Employee's Benefit Trust is 245 Perimeter Center Parkway, Atlanta, Georgia 30346. The Trustee of the Contel Employee's Benefit Trust is Trust Company Bank, One Park Place, N.E., Atlanta, Georgia 30303.

Life Insurance benefits are insured in accordance with the provisions of Group Insurance Policy Series Number 6949 issued by Pacific Mutual Life Insurance Company, 700 Newport Center Drive, Newport Beach, California 92660.

Participating companies pay the full cost of the Program.

Plan Records

Records for the Medical part of the program are maintained on a calendar-year basis - January 1 through December 31 of each year. Retiree records for claim purposes are also maintained on a